



LAKE STEVENS ECONOMIC DEVELOPMENT STRATEGY



ECONOMIC ASSESSMENT

PREPARED FOR



The City of Lake Stevens
1812 Main Street
Lake Stevens, WA 98258
www.ci.lake-stevens.wa.us

PREPARED BY



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Contents

Introduction	4
The People of Lake Stevens: A Key to Successful Economic Development	5
Up and Coming Families.....	7
Additional Tapestry Segments	10
Housing Market Context.....	15
Economic Profile: State, Region, and City	17
Employment Dynamics and Office Market	22
The Geography of Employment	22
Lake Stevens Traffic Counts	25
Office Market Summary	26
Retail Market.....	27
Competitive Environment.....	27
Retail Market	28
Retail Character: Mill Creek Town Center	29
Industrial Market	30
Appendices	31

List of Figures

Figure 1. Families as Percentage of All Households.....	5
Figure 2. Virtuous Cycle of Lake Stevens' Economic Development	5
Figure 3. Lake Stevens Households: Tapestry Segments	6
Figure 4. Months of Housing Supply by County, Q4 2009	15
Figure 5. Snohomish County Median Home Sales Price Change from June 2009 to June 2010	16
Figure 6. Snohomish County Median Home Sales Price June 2010	16
Figure 7. Washington State Employment Change, 2007 - 2017	17
Figure 8. Average Wages and Annual Growth Rate by Education Level, 2007 – 2017	18
Figure 9. Key Industry Clusters for Washington State, Puget Sound, and Snohomish County	19
Figure 10. Snohomish County Clusters.....	20
Figure 11. Employment Destinations of Lake Stevens Residents.....	22
Figure 12. Residential Origins of Lake Stevens Employees	23
Figure 13. Residential Origins of City of Everett Employees.....	24
Figure 14. Lake Stevens Area Traffic Counts	25
Figure 15. Major Retail Centers near Lake Stevens	27
Figure 16. Northend Retail Rates and Net Absorption Since 2006	28
Figure 17. Mill Creek Town Center.....	29
Figure 21. 2010 Median Household Income	31
Figure 22. Annual growth rate of per capita income from 2000 to 2010	31

List of Tables

Table 1. Demographics, Incomes, and Ethnicity for Lake Stevens and Comparable Areas	8
Table 2. Education, Employment, and Housing for Lake Stevens and Comparable Areas	9
Table 3. Puget Sound Office Market Summary, Q1 2010	26
Table 4. Total Retail Market Statistics, First Quarter 2010.....	28
Table 5. Puget Sound Industrial Real Estate Market Statistics	30

Introduction

In combination with several other technical memorandums and reports, this Economic Assessment provides background economic and demographic analysis to inform the Lake Stevens Economic Development Strategy. The Economic Assessment summarizes the context within which economic development in Lake Stevens will occur and describes its key economic strengths and weaknesses. These findings will help shape what is possible and arrive at the targeted actions that will activate opportunities. This assessment summarizes the following economic indicators:

- Demographics: Population, education, and other characteristics of Lake Stevens.
- Economy: Local, regional, and national trends, including growing industries and industry clusters.
- Real estate markets: Current conditions and characteristics of the office, retail, and industrial markets.

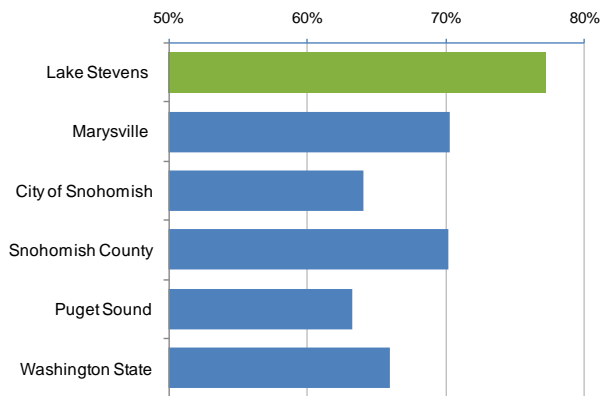
The relevant findings from each section (“takeaways”) are noted throughout the document. These findings will form the basis for the development of the Economic Development Strategy. At the end of this report is an appendix with detailed data tables on many more economic indicators.

The People of Lake Stevens: A Key to Successful Economic Development

A city's residents are the source of its current identity, and the foundation for its future successes.

A city's people hold the key to its tax base and fiscal security, workforce and knowledge base. Effective cities are aligned with their citizens: a population base that is happy with and supportive of the city's strategic direction and day-to-day operations is the city's best marketing tool and internal resource, whether the resources needed are bond issues, political leadership, or volunteers. This means that one of Lake Stevens' first priorities should be to ensure that it is meeting the needs of its current residents and those expected to relocate to the City in the future.

Figure 1. Families as Percentage of All Households

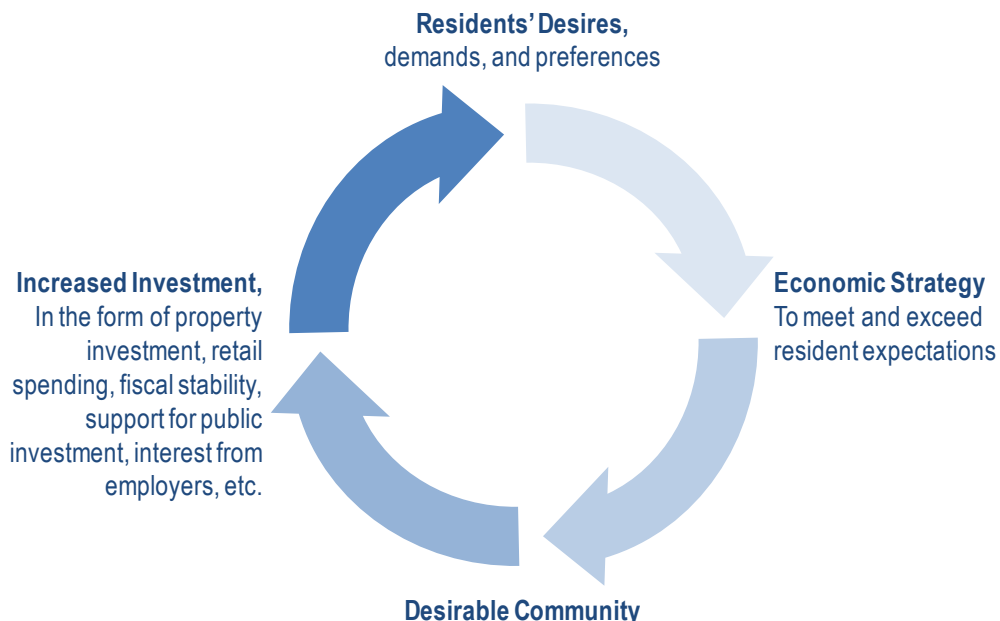


Source: ESRI Business Analyst, U.S. Census.

The importance of current residents has become even clearer in the late 20th and early 21st century economy, as economists have identified that people and their skills—to a far greater degree than natural resources or other attributes—are the source of wealth and economic growth. In the Puget Sound region, for example, it is people's creativity and expertise in the aerospace and information technology fields that has driven the economy in recent decades, and will continue to do so in the future. This is a dramatic reversal from the region's origins, when timber, agriculture, and inexpensive energy (natural resources) were combined with value-added manufacturing to create economic opportunity.

One of the fundamental keys to Lake Stevens' people is *family*.

Figure 2. Virtuous Cycle of Lake Stevens' Economic Development



Source: Leland Consulting Group.

As shown in Figure 1, more than 77 percent of Lake Stevens' households are family households (in which two or more members of the household are related)—a far higher percentage than neighboring cities, Snohomish County, or the Puget Sound Region. The community's family orientation, as well as a number of other major and minor demographic themes, should play an important role in informing the City about the services it should provide, the types of retail it should encourage, types of jobs likely to thrive, and other aspects of economic development.

Tapestry Segments

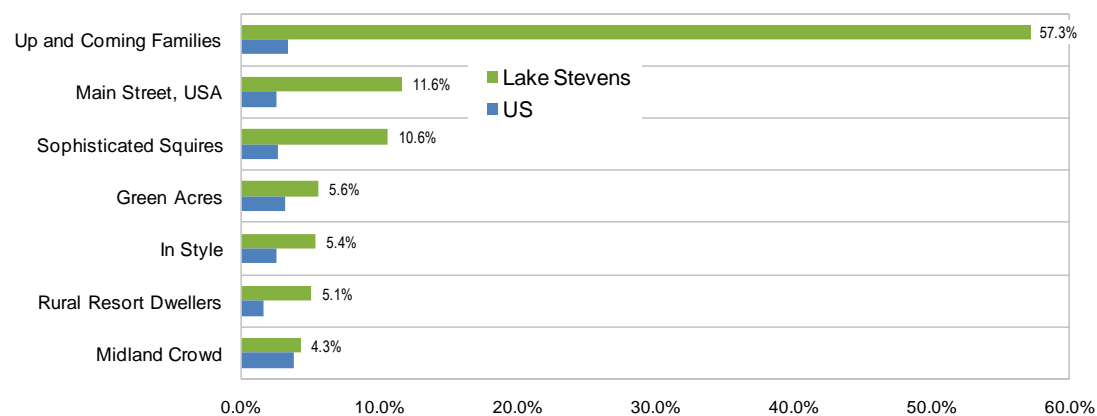
A number of quantitative and qualitative information sources can be used to understand a community's residents and demographic profile.

"Tapestry segments"—a socio-demographic classification system developed by ESRI, Inc.—are one of the most useful, because they describe a community's population in plain English (along with data), rather than in terms of data alone. The system divides the country's population in 65 tapestry segments, or demographic groups, each of which is described on the basis of traditional metrics such as ages and incomes, but also in terms of values, lifestyle choices, interests, and consumer preferences. The system is used widely by retailers, real estate developers, and many others attempting to predict the tendencies and preferences of local and regional populations.¹

As shown in Figure 3, nearly 60 percent of Lake Stevens' households are part of a single tapestry segment: "Up and Coming Families." It is relatively unusual for one segment to make up such a large share of a city's population. Thus, it will be very important for the City to understand the values and preferences of these Up and Coming Families. As such, these households are described on the following page.

A key observation is that, "*family* and *home* dictate the products these residents buy," and, we suspect, also the other lifestyle, locational, investment, recreational, and community decisions made by these households.

Figure 3. Lake Stevens Households: Tapestry Segments



Source: ESRI Business Analyst, Leland Consulting Group.

In addition to Up and Coming Families households, six remaining tapestry segments make up the remainder of the Lake Stevens population. These are led by Main Street, USA and Sophisticated Squires, also family-oriented tapestry segments.

¹ Note that, because tapestry segments are based on national statistical analyses, there are likely to be some variations between local and national lifestyle choices and consumer preferences, even within a given segment.

Up and Coming Families

Demographics

With an annual household growth rate of 5.2 percent, Up and Coming Families represents the tapestry's second highest household growth market. A mix of Generation Xers and Baby Boomers with a median age of 31.9 years, this segment is the youngest of the tapestry's affluent family markets. Residents of these neighborhoods are young, affluent families with younger children. Eighty percent of the households are families. Most of the residents are white; however, diversity is increasing as the segment grows.

Socioeconomic

Beginning their careers, residents of Up and Coming Families are earning above-average incomes. The median household income is \$78,189, higher than the national median. The median net worth is \$194,046. Nearly two-thirds of the residents aged 25 years and older have attended college; more than one in five holds a bachelor's degree. Labor force participation is well above average at 71 percent; unemployment is low. Ninety-one percent of households earn income from wages and salaries. Although half of the households have children, they also have working parents.



Residential

In the suburban outskirts of mid-sized metropolitan areas with populations higher than 250,000, approximately half of Up and Coming Families neighborhoods are concentrated in the South, the other half in the West and Midwest. Most residents live in new single-family housing; more than half the housing units were built in the last 10 years. Homeownership is at 83 percent. The median home value is \$182,628.

Preferences

Family and home dictate the products these residents buy. Many are beginning or expanding their families, so baby equipment, children's clothing, and toys are essential purchases. Because many are first-time homeowners, basic household furniture and lawn fertilizer, weed control, and insecticide products are important. Car loans and mortgage payments are major household budget items. They are most likely to own or lease an SUV or a minivan. They eat out at family restaurants, especially on the weekends, and buy fast food at the drive-through or for takeout. They play softball, take the kids to the zoo, and visit theme parks (generally Sea World or Disney World) where they make good use of their digital camera or camcorder. They rent comedy, family, and action/adventure DVDs. Cable station favorites include Country Music Channel, ESPN news, The Learning Channel, and the Disney Channel. They listen to country, soft rock, and contemporary hit radio.

Demographic Characteristics

Table 1 and 2 quantify some of the other demographic themes and trends that both connect and distinguish Lake Stevens from its neighboring cities, Snohomish County, the Puget Sound Region², and Washington State.

Lake Stevens:

- **Has significantly larger households** (2.9 persons per household) compared to nearby areas (ranging from between 2.4 and 2.7 persons per household). Again, this is due to the large number of families in Lake Stevens.
- **Is growing quickly** (1.63 percent)—slightly faster than Snohomish County as a whole, and significantly faster than the Puget Sound region (1.18 percent). Lake Stevens is “in the path of growth” as the population and job base of the Puget Sound region continues to move north and east.
- **Households have incomes (\$76,872 median) that are at least 10 percent higher than any other area measured here.** This suggests that there are a significant number of business executives who work in high-income industries to the west and south, but choose to live in Lake Stevens.
- **Is a younger community on average** than others, due in part to the large number of children in the City.
- **Contains a small but significant share of one and two person households** (46.7 percent) compared to 61.2 percent for the Puget Sound region. One and two person households are the core “target market” for urban housing—the group from which most residents of townhomes, condominiums, apartments, and the like, will be drawn.
- **Is less ethnically diverse than other areas**, including the State, with the exception of the City of Snohomish.

Table 1. Demographics, Incomes, and Ethnicity for Lake Stevens and Comparable Areas

	Lake Stevens	Marysville	City of Snohomish	Snohomish County	Puget Sound Region	Washington State
Population, 2009	24,697	30,712	8,719	707,569	3,428,566	6,691,182
Households, 2009	8,588	11,334	3,483	267,067	1,354,769	2,584,164
Family Households	77.2%	70.3%	64.1%	70.2%	63.3%	66.0%
Household Size, (2009 Avg)	2.9	2.7	2.4	2.6	2.5	2.5
Population Growth Rate, 2009-2014	1.63%	1.77%	0.59%	1.54%	1.18%	1.25%
Percent 1 and 2 Person Households	46.7%	54.8%	59.6%	55.7%	61.2%	60.5%
Median Household Income, 2009	\$76,872	\$68,258	\$63,126	\$69,565	\$69,186	\$60,852
Population's Median Age, 2009	32.6	34.1	35.9	36.2	36.8	36.9
Gender Ratio (percent female)	49.7%	50.7%	51.9%	50.1%	50.2%	50.2%
Race and Ethnicity						
White Alone	89.0%	88.2%	93.6%	85.6%	78.3%	81.8%
Black Alone	1.1%	1.1%	0.6%	1.8%	5.3%	3.4%
American Indian Alone	0.9%	1.5%	0.6%	1.3%	1.1%	1.5%
Asian or Pacific Islander Alone	2.6%	5.0%	1.5%	7.2%	10.5%	6.9%
Some Other Race Alone	2.0%	2.3%	1.3%	2.5%	3.0%	4.9%
Two or More Races	4.4%	3.9%	3.6%	4.0%	4.9%	4.3%
Hispanic Origin	6.2%	6.2%	5.4%	6.3%	7.1%	9.7%
Diversity Index	30.0	34.1	23.0	38.7	49.8	48.1

Source: ESRI Business Analyst, Leland Consulting Group.

² The official U.S. Census name for this area is the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA). The MSA includes the greater Everett Area, Lake Stevens, and most of Snohomish County.

As Table 2 shows, Lake Stevens residents:

- **Work mostly in professional or “white collar” jobs (57.3 percent of employed residents), but are more likely than all other areas to have “blue collar jobs” (26.4 percent of employed residents).**
- **Earn a smaller share of bachelors and advanced degrees compared to other areas.** This is somewhat surprising considering the City’s higher-than-average incomes. Despite the importance of blue collar jobs, and labor and manufacturing skills important to the aerospace industry, educational attainment continues to be one of the key indicators of income and economic growth. Thus, the City should look for ways to spur additional educational attainment.
- **Are looking for work at historically very high levels—above 10 percent.** While this rate is slightly higher than the other areas, it is more indicative of the national economic recession.
- Own homes that are slightly less valuable than most other areas, with the exception of Marysville.
- **Are much more likely than residents of comparable areas to own their own homes.** The Lake Stevens homeownership rate is 72.5 percent, compared to less than 60 percent for the Puget Sound region and Washington State.
- **Tend to live in newer homes compared to comparable areas.** Again, this reflects the fact that north and east Snohomish County continue to be high growth areas.

Table 2. Education, Employment, and Housing for Lake Stevens and Comparable Areas

	Lake Stevens	Marysville	City of Snohomish	Snohomish County	Puget Sound Region	Washington State
Education and Employment						
Bachelors or Advanced Degree	20.9%	22.7%	25.3%	27.1%	35.6%	30.4%
Occupation						
"White Collar"	57.3%	56.7%	58.3%	61.4%	66.0%	62.1%
"Blue Collar"	26.4%	23.2%	23.8%	22.4%	17.9%	20.2%
Employment, 2000						
In Labor Force	73.9%	69.2%	67.6%	70.4%	69.4%	66.5%
Civilian Employed	69.6%	64.5%	64.2%	65.9%	65.0%	61.4%
Civilian Unemployed	3.8%	3.3%	3.4%	3.5%	3.4%	4.1%
In Armed Forces	0.5%	1.4%	0.0%	1.0%	1.0%	1.1%
Not in Labor Force	26.1%	30.8%	32.4%	29.6%	30.6%	33.5%
Employment, 2009						
Civilian Employed	89.4%	90.2%	89.8%	89.9%	90.4%	89.6%
Civilian Unemployed	10.6%	9.8%	10.2%	10.1%	9.6%	10.4%
Housing						
Median Home Value, 2009	\$300,959	\$299,925	\$306,601	\$329,370	\$332,988	\$272,173
Housing Tenure, 2009						
Owner Occupied Housing Units	72.5%	66.5%	52.0%	63.9%	58.4%	59.2%
Renter Occupied Housing Units	22.8%	29.3%	42.4%	30.6%	35.7%	32.6%
Vacant Housing Units	4.8%	4.2%	5.6%	5.5%	5.9%	8.3%
Median Year Structure Built	1988	1986	1973	1980	1973	1974

Source: ESRI Business Analyst, Leland Consulting Group.

Additional Tapestry Segments

Main Street USA

Demographics

Main Street, USA neighborhoods are a mix of household types, similar to the U.S. distribution. Approximately half of the households are composed of married-couple families, nearly one-third are single-person or shared households, and the rest are single-parent or other family households. The median age of 36.7 years matches the U.S. median. These residents are less diverse than the U.S. population.

Socioeconomics

The median household income is \$57,082, derived from wages, interest, dividends, or rental property. Their median net worth is \$86,618. More than one in five residents aged 25 years and older hold a bachelor's or graduate degree; half of the residents have attended college. Occupation and industry distributions are similar to those of the U.S.



Residential

A mix of single-family homes and multiunit buildings, these neighborhoods are located in the suburbs of smaller cities in the Northeast, West, and Midwest. Nearly two-thirds of the housing was built before 1970. The homeownership rate is 63 percent; the median home value is \$181,600.

Preferences

Family-oriented and frugal, these residents may occasionally go to the movies or eat out at a family restaurant, such as Friendly's or Red Robin, but are most likely to stay home and watch a rental movie or play games with their children. They own pet cats. They play baseball and basketball and go swimming. They listen to classic hits and rock radio and watch cartoons and courtroom shows on TV. They go to the beach and theme parks or take domestic vacations to visit with family or see national parks.

They go online periodically to look for jobs, research real estate, and play games and are beginning to shop online. Those who do not have Internet access at home will go online at school or the public library. They use the Yellow Pages to find veterinarians or stores. They will invest in small home improvement and remodeling projects, usually doing the work themselves instead of hiring a contractor. They buy the tools and supplies for these projects from Home Depot or Ace Hardware. They keep up their lawns and gardens by planting bulbs, fertilizing, and applying lawn care products regularly.

Sophisticated Squires

Demographics

Residents of Sophisticated Squires neighborhoods enjoy cultured country life on the urban fringe. These city escapees accept longer commutes to live near fewer neighbors.

Mostly married couple families; more than 40 percent of the households are married couples with children that range from toddlers to young adults. The median age is 38.2 years. Most are baby boomers and are aged between 35 and 54 years. This segment is not ethnically diverse; most residents are white.



Socioeconomics

These residents are educated; more than one-third of the population aged 25 years or older holds a bachelor's or graduate degree; another third has attended college. Labor force participation rates are high; occupations range from management to unskilled labor positions. Most work in white-collar jobs. The median household income is \$86,075. Nearly 90 percent of the households earn wage or salary income; nearly half supplement their wages and salaries with interest, dividends, or rental income. The median net worth is \$298,660.

Residential

Sophisticated Squires often live in less densely populated areas. Approximately 90 percent of the housing is single-family homes; the median home value is \$237,607. Seventy-four percent of the housing was built before 1990; 55 percent was built between 1970 and 1989. More than 80 percent of the households own at least two vehicles. They prefer compact SUVs; however, many drive minivans or full-size SUVs.

Preferences

Do-it-yourselfers, Sophisticated Squires residents take care of their lawns and landscaping; home improvements; and remodeling projects such as bathroom remodeling, installing new light fixtures, painting home interiors, staining decks, and cleaning carpets with their steam cleaners. They like to barbecue on their gas grills and make bread with their breadmaking machines. Many households own a motorcycle. A typical household will own three or more cell phones. Looking toward the future, many residents own stocks, bonds, and large life insurance policies. When dieting, they go on Weight Watchers; many own a treadmill or stationary bike to stay fit. They go power boating, play board and word games, do woodworking projects, and attend football and baseball games. Adults also take photos, play golf, and ride their motorcycles. Children play games on the home personal computer and typically own a video game system. Residents listen to soft adult contemporary music; classic hits; news; all-talk; and sports radio, including broadcasts of professional games. Although many households have four or more TVs, residents watch as much television as typical U.S. households. Favorite programs include news, comedies, dramas, and programs on Home & Garden Television.

Green Acres

Demographic

Seventy-one percent of the households in Green Acres neighborhoods are married couples with and without children. Many families are blue-collar Baby Boomers, many with children aged 6 to 17 years. With more than 10 million people, Green Acres represents the tapestry's third largest segment, currently more than three percent of the U.S. population and growing by 2.2 percent annually. The median age is 40.7 years. This segment is not ethnically diverse; 92 percent of the residents are white.

Socioeconomic

Educated and hard-working, more than one-fourth of Green Acres residents hold a bachelor's or graduate degree; more than half have attended college. Labor force participation is 68 percent, with higher employment concentrations in the manufacturing, construction, health care, and retail trade industry sectors. Occupation distributions are similar to those of the U.S. Seventeen percent of the households earn income from self-employment ventures. The median household income is \$64,480; the median net worth is \$177,629.



Residential

Although Green Acres neighborhoods are located throughout the country, they are found primarily in the Midwest and South, with the highest concentrations in Michigan, Ohio, and Pennsylvania. A "little bit country," these residents live in pastoral settings of developing suburban fringe areas. Homeownership is at 86 percent, and median home value is \$181,705. Typical of rural residents, Green Acres households own multiple vehicles; 78 percent own two or more vehicles.

Preferences

Country living describes the lifestyle of Green Acres residents. Pet dogs or cats are considered part of the family. These do-it-yourselfers maintain and remodel their homes; projects include roofing and installing carpet or insulation. They own all the necessary power tools, including routers, welders, sanders, and various saws, to finish their projects. Residents also have the right tools to maintain their lawns, flower gardens, and vegetable gardens. They own riding lawn mowers, garden tillers, tractors, and even separate home freezers for the harvest. Continuing the do-it-yourself mode, it is not surprising that Green Acres is the top market for owning a sewing machine. A favorite pastime is using their ice cream maker to produce homemade ice cream. They prefer motorcycles and full-size pickup trucks. For exercise, Green Acres residents ride their mountain bikes and go fishing, canoeing, and kayaking. They also ride horseback and go power boating, bird watching, target shooting, hunting, motorcycling, and bowling. They listen to auto racing and country music on the radio and read fishing and hunting magazines. Many own satellite dishes so they can watch news programs, the Speed Channel, and auto racing on TV. A favorite channel is Country Music Television.

In Style

Demographic

In Style residents live in the suburbs but prefer the city lifestyle. Professional couples predominate. Household distributions by type are similar to those of the United States. Married-couple families represent 54 percent of households. Households without children (married couples without children, single-person, shared, and other family types), comprise more than two-thirds of all households. This count is increasing. The population is slightly older, with a median age of 39.9 years. There is little diversity in these neighborhoods.



Socioeconomic

In Style residents are prosperous, with a median household income of \$71,177 and a median net worth of \$188,492. Wages and salaries provide income for 84 percent of the households; 47 percent also receive some form of investment income. In Style residents are more educated compared to the U.S. level: 42 percent of the population aged 25 years and older hold a bachelor's or graduate degree. Labor force participation is 70 percent; unemployment is historically 8.2 percent.

Forty-six percent of employed residents have professional or management positions, with above average concentrations in the finance, insurance, health care, technical services, and education industry sectors.

Residential

In Style residents live in affluent neighborhoods of metropolitan areas across the country. More suburban than urban, they embrace an urbane lifestyle; 14 percent prefer townhouses to traditional single-family homes chosen by 56 percent of the households. The median home value is \$224,030. The 69 percent rate of homeownership is just slightly above average. More than three-quarters of the housing was built in the last 30 years.

Preferences

Computer savvy In Style residents go online daily to research real estate information; do their banking; track investments; trade stocks; book travel; and buy computer hardware or software, concert tickets, or tickets to sporting events. They use a financial planner and invest in stocks, bonds, money market funds, money market bank accounts, and securities. Looking toward the future, residents hold life insurance policies and contribute to IRA and 401(k) retirement accounts. To maintain their homes, they hire professional household cleaning services and contractors to remodel their kitchens. Residents stay fit by exercising, eating a healthy diet to control their weight, buying low-fat foods, and taking vitamins. They attend live musical performances and gamble at casinos. They take domestic vacations to hike, golf, and go backpacking. They read magazines, listen to news-talk radio, and watch professional sports events and golf on TV.

What do Lake Stevens' Residents Value?

This demographic survey strongly indicates that the majority of Lake Stevens' residents will place a very high value on family-oriented amenities and services such as:

- Excellent schools;
- Sense of community;
- Safety;
- Places where parents and children can relax and recreate, including parks and outdoor areas, retail, and entertainment;
- Easy access to retailers that supply goods for the middle class and upscale home and family; and,
- Convenient access to work, whether in the community or elsewhere.

These types of amenities are very much in line with the City's primary strengths, which were identified by interviewees during the Stakeholder Interview component of this strategy. The following are the City's key strengths:

- **A strong sense of community; a family-friendly community.** Lake Stevens' residents like where they live—an asset whose value cannot be overstated. Residents appreciate that Lake Stevens has retained a friendly, small town atmosphere where neighbors know neighbors, even as the town has grown. Residents are able to gather and connect at the farmer's markets, annual events such as Aquafest, and other events.
- **Lake Stevens itself** is seen by residents and visitors alike as one of the community's main assets. The Lake is a source of identity; a great recreational resource for boating, fishing, swimming, and events; and a natural gathering place.
- **A school district with a reputation for excellence.** Residents interviewed for this project listed the Lake Stevens School District as one of the main reasons that people move to and continue to live in the City. The schools are known for their high quality of education and facilities. Residents have repeatedly demonstrated a willingness to support the district through property tax levies.
- **An active, outdoors lifestyle** oriented towards the Lake, Cascade Mountains, running and cycling, and other natural resources. Lake Stevens is host to triathlons, regattas, Aquafest, the Centennial Trail, the Mountain Loop Highway, nearby skiing—all a great draw for residents and visitors.



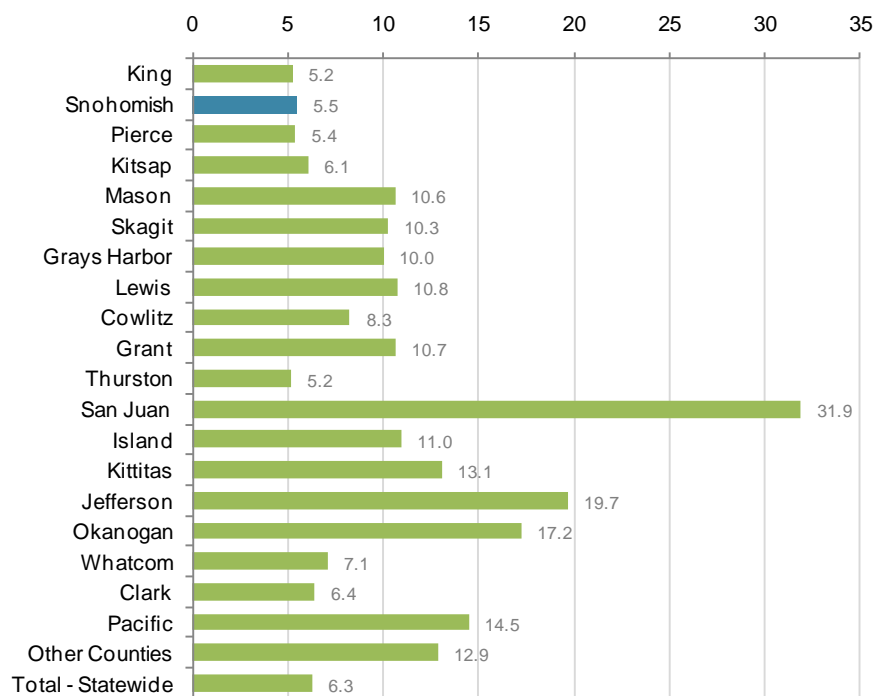
Housing Market Context

The housing market has been one of the primary causes of the ongoing national recession. It is also a key indicator of current and future economic growth and health, community desirability, and the growth of future property tax revenues.

Figure 4 shows the number of months of housing supply by county, a key indicator of the stability of local housing markets.³ Generally, a supply of more than six months is considered a weak market, in which very little housing is likely to be built in the near future; three to six months is considered a normal market, in which housing should continue to be built at the “normal” pace. Supplies of less than three months indicate very strong demand and/or very little housing supply, an environment in which developers will be eager to build in unless they are prevented from doing so by natural or regulatory obstacles.

Snohomish County, along with most of the Puget Sound, housing supply of just over five months indicates that the housing market is relatively healthy, and that development should resume to near its historic level in the near term. This is actually good news compared to other housing markets within the state and around the country. Increased homebuilding will result in increased construction (sales) and property tax revenues for the City. As Figure 4 shows, numerous counties have nearly one year of housing supply, and the most over-supplied county, San Juan, has nearly three years of supply. This is probably due to this county's dependence on the second home market, which suffered even more than most first-home markets.

Figure 4. Months of Housing Supply by County, Q4 2009



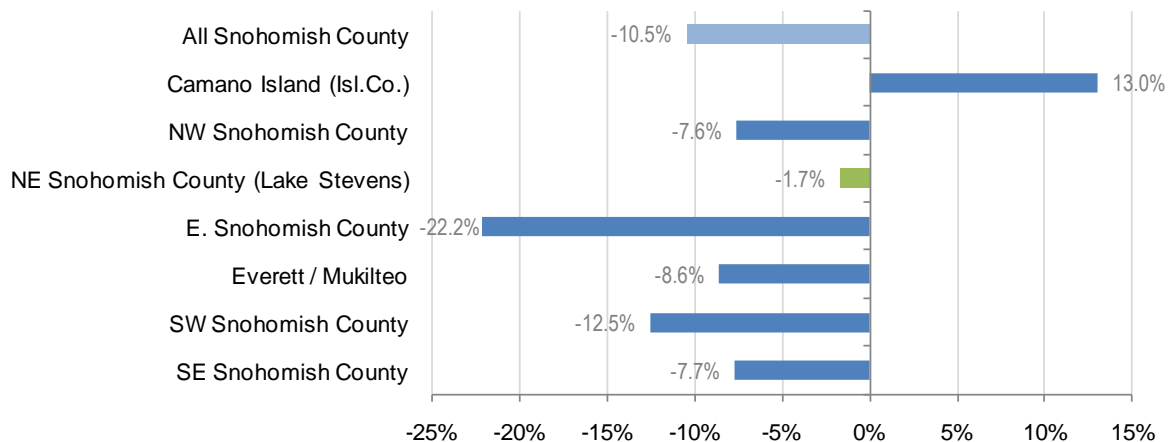
Source: Northwest Multiple Listing Service, 2009 Statistical Recap. Includes single family homes, attached homes, and condominiums.

³ Months of housing supply is calculated by dividing the total number of homes for sale at any given time by the sales in the most recent month. (Averages for both numbers are sometimes used.) For example, if 1,000 homes are for sale in a given community, and 200 sold in the previous month, there are five months of supply available on the market. The lower the number of months of supply, the higher the demand for housing is compared to the supply.

Figure 5 also suggests that, while the Lake Stevens housing market is being dragged down by national trends, it is in better shape than most markets. Between June 2009 and 2010, housing prices in Lake Stevens decreased—but not nearly as much as in most other Snohomish County submarkets. Figure 6 shows that Lake Stevens is generally among the more affordable housing markets in the County, with average sales prices similar to Everett, and east, southwest, and northwest Snohomish County.

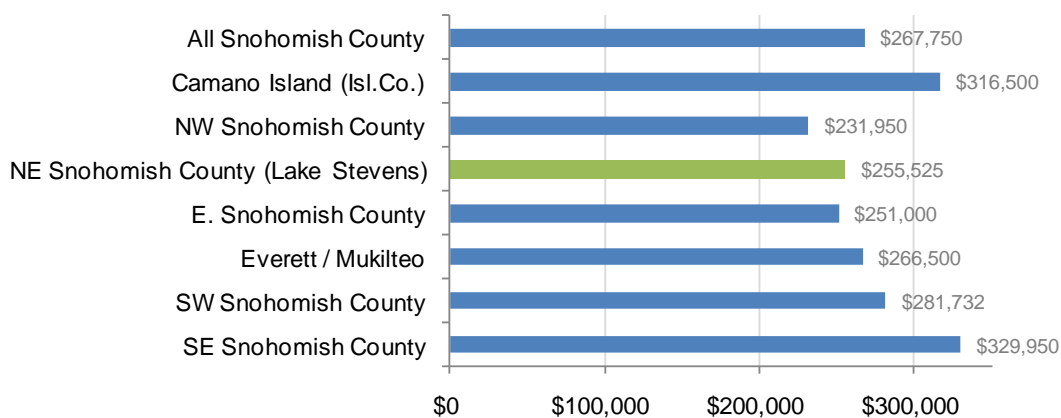
Taken together, this data suggests that Lake Stevens continues to be a very desirable middle-income address, where the national first-time homebuyer credit may have had a significant impact on relatively strong home sales. This desirability is in effect despite the lower employment, difficulty accessing loans, lower anticipated appreciation, and other challenges currently facing homebuyers.

Figure 5. Snohomish County Median Home Sales Price Change from June 2009 to June 2010



Source: Northwest Multiple Listing Service, June 2010. Note: Stevens Pass is price change is not listed since it has no recorded home sales during this time period.

Figure 6. Snohomish County Median Home Sales Price June 2010



Source: Northwest Multiple Listing Service, June 2010.

Economic Profile: State, Region, and City

The economic, demographic, cultural, and geographic qualities of the Puget Sound Region set the stage for the local economy in Lake Stevens—and in general, the region provides an excellent foundation for the City's economic growth. The modern, global economy is a deeply interconnected economy, and the Puget Sound region must succeed in order for Lake Stevens to succeed. Lake Stevens will continue to rely on nearby communities for many of its employers, industry and economic drivers, labor force, and other resources. The Puget Sound Region has fared better than most other metropolitan regions, despite the economic hardships that have affected nearly every region and industry across the county, beginning in 2007. Critically, its future success is based on a set of industries—including high tech, clean tech, aerospace, and international trade—that should grow vigorously during the 21st century.

Over the past decade, Washington State, led by the Puget Sound Region, has seen an employment growth rate of 1.3 percent, the 16th highest state rate in the country; it ranks fourth in total value of exports after only Texas, California, and New York; and 14th in per capita income, at \$42,857.⁴

Sources of Employment Growth

Figure 7 and Figure 8 illustrate several key points about the ways that Washington State's economy is expected to continue to evolve in the coming decade.

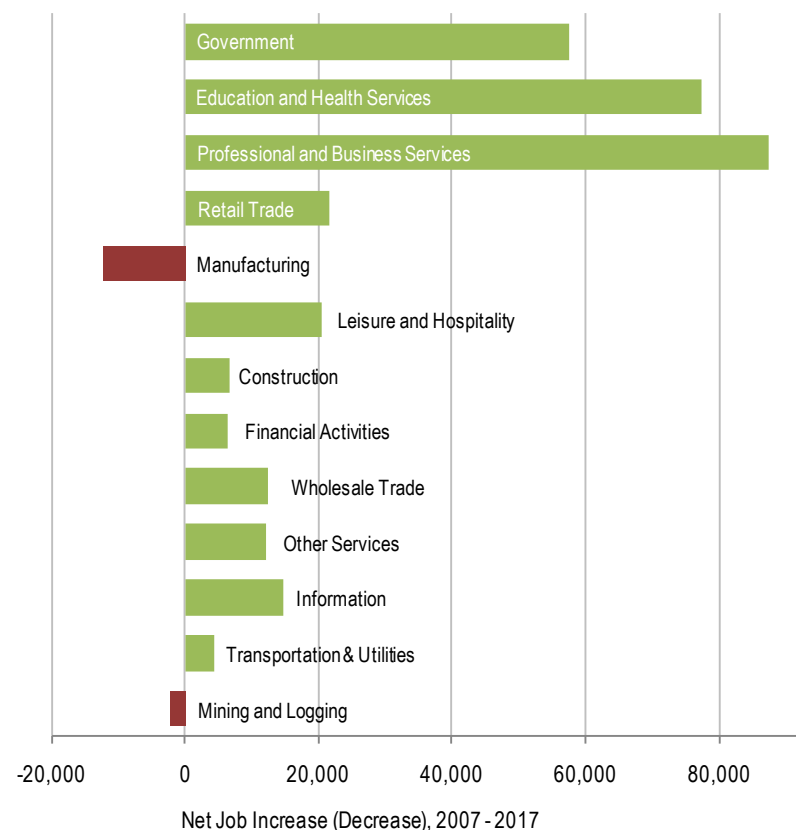
First, several industry sectors are expected to generate the lion's share of the job growth in the state, trends that will almost certainly be reflected in the Puget Sound and Lake Stevens work forces. The key industry sectors for job growth are:

- Professional and Business Services;
- Education and Health Services, being driven in large part by the aging baby boomer population and growing need for health care services; and
- Government.

Growth in these key industry sectors is expected to be supplemented by relatively strong job growth in other sectors, including retail, finance, and hospitality.

This growth is in sharp contrast to the employment losses projected for the manufacturing and mining and logging sectors. While America's manufacturing sector continues to produce strong revenues and sales growth, manufacturing *employment* continues to shrink due to mechanization, computerization, and other gains in efficiencies.

Figure 7. Washington State Employment Change, 2007 - 2017



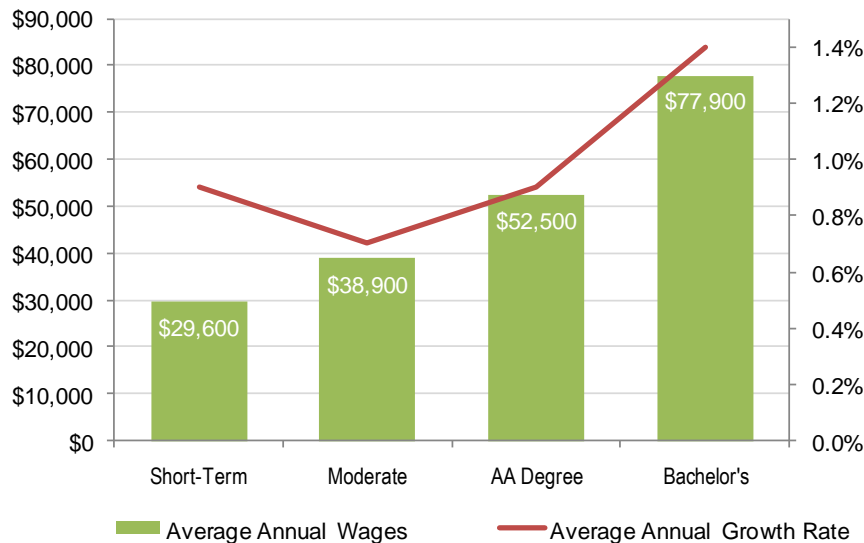
Source: LMEA/Washington State Employment Security Department.

⁴ Washington State Employment Security Department, December 2009.

Washington State's growth sectors highlight the state's transition (along the country's other leading economies) towards a "knowledge economy," in which most traded-sector job growth will involve the creation of value through ideas, creativity, technical expertise, *management* of industrial processes, and other white collar skills, rather than through traditional labor-intensive industries.

Figure 8 shows another element of Washington State's current and emerging economy: While new jobs will be created for those will all levels of education, projected job growth rates and wages are both expected to be highest for those with a college education.

Figure 8. Average Wages and Annual Growth Rate by Education Level, 2007 – 2017



*Notes: Short term indicates on-the-job training of up to one month; moderate indicates on-the-job training up to one year.
Source: LMEA/Washington State Employment Security Department.*

Thus, Lake Stevens should seek ways to tap into the projected growth in key industries, while insuring that its workforce is well-educated and able to take on the types of jobs that are likely to grow in the future. There are multiple ways in which Lake Stevens can play a role in the growing industry sectors identified above. For example, it may be the site for new employment and office park expansion or serve as a retail and recreation center for employees in those industries.

Key Industry Clusters

Figure 9 shows the key industry "clusters" that the state, region, and Snohomish County have identified as critical to their past and future successes. These clusters are another framework that can help Lake Stevens to understand its economic context and customize its economic development strategies.

Clusters are explained in more detail below, but differ from industry "sectors" in that they are somewhat more intuitive, and typically cross traditional industry boundaries by including producers, suppliers, consumers, and competitor firms. Clusters are geographically based; in other words, they are concentrated in a particular geographical area and give that area a competitive economic advantage.

The Snohomish Economic Development Council (EDC) has identified three key industry clusters—*aerospace*, *clean tech*, and *life sciences*—that are expected to generate the greatest amount of employment growth. These clusters indicate at least some of the employment areas in which Lake Stevens itself is positioned to succeed.

Figure 9. Key Industry Clusters for Washington State, Puget Sound, and Snohomish County

Target Industry	Washington State	Puget Sound	Snohomish County (PSRC)	Snohomish County (EDC)	Lake Stevens
Aerospace	✓	✓	✓	✓	✓
Boat Building		✓			
Business Services		✓			
Clean Technology	✓			✓	✓
Electronic Shopping		✓			
Environment/Alternative Energy	✓	✓			
Head Offices		✓			
Information Technology	✓	✓	✓		
Life Sciences (Health)	✓	✓	✓	✓	✓
Logistics and International Trade		✓	✓		
Long Term Care		✓			
Manufacturing	✓				
Military		✓			
Outdoor Sports/Recreation Gear					✓
Sound Recording		✓			
Specialty Foods		✓			
Tourism		✓			
Value Added Ag., Food Processing	✓				
Wood Products/Forest Products	✓	✓			

Source: Department of Commerce, www.choosewashington.com; U.S. EDA Investment Policy Guidelines, 01/22/10; Economic Development Council of Snohomish County, 2009 Annual Report; Puget Sound Regional Council, Regional Economic Strategy for the Central Puget Sound Region: Vol I and II, September 2005.

What are Industry Clusters?

One key to understanding and growing local economies is to understand local industry “clusters”—a group of “firms and related economic actors and institutions that draw productive advantage from their mutual proximity and connections.”⁵

Examples of clusters include the aerospace and information technology industries in the Puget Sound Region, the wine-making industry in Napa County, California, the energy industry in Houston, or the auto industry in Detroit. Thinking in terms of clusters as opposed to other frameworks has a number of advantages.

First, clusters are intuitive. Economic development professionals and laypeople alike typically recognize when there are unusually large concentrations of certain types of businesses located near them.

Second, clusters specifically cut across traditional occupational or and industry boundaries. For example, Snohomish County’s aerospace cluster consists of course of those who work as engineers and in manufacturing facilities, but also of others in the fields of law, finance, transportation and logistics, CAD design, marketing, and more, who have all specialized their practices to excel in the aerospace cluster. In other words, clusters are holistic and multi-disciplinary groups of people and businesses that collectively enhance the economic competitiveness of a particular area. And it is very hard to replicate these economic advantages elsewhere.

Third, one of the most effective economic development strategies that communities and regions can pursue is recognizing and building on their local clusters. Put another way, communities should leverage

⁵ Joseph Cortwright, Brookings Institution.

their current assets to create economic growth rather than trying to become something completely different in the short term.

Clusters rely on a number of different local assets, all of which are important to economic development:

- Talented labor force;
- Suppliers;
- Consumers/customers. For example
- Competitors.

Snohomish County Industry Clusters

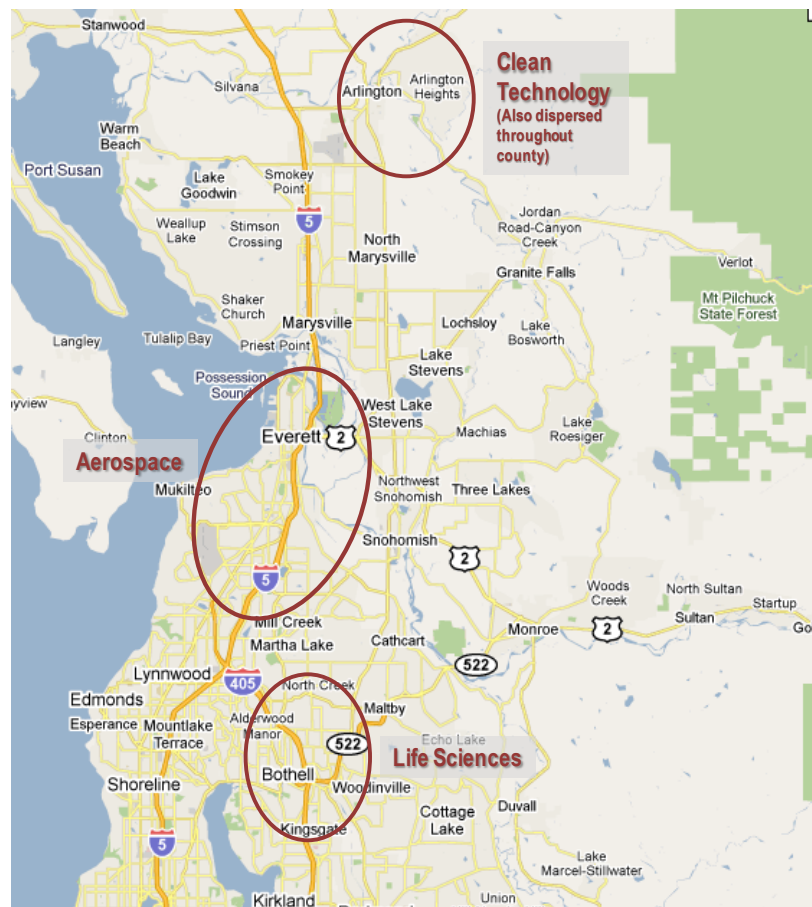
As stated above, different industry clusters are concentrated in different areas. Figure 10 shows the general areas within which Snohomish County's identified industry clusters are concentrated.

Aerospace. Due to its size and proximity to Lake Stevens, the Aerospace cluster, concentrated near Paine Field and throughout Everett, will have the greatest impact and hold the greatest potential for Lake Stevens. Lake Stevens has the potential to attract small to mid-size firms that are suppliers or collaborators with existing aerospace firms in the Everett area. Firms headed by executives who live in Lake Stevens or nearby and who are seeking shorter commutes will have a greater propensity to select Lake Stevens. Large firms will be less likely to select Lake Stevens due to sunk capital costs already committed to existing facilities, and the importance of being located near Paine Field and its attendant cluster of firms.

Life Sciences. According to the EDC and brokers interviewed for this project, Lake Stevens is likely to encounter significant challenges in attempting to attract large employers from the Life Sciences cluster. This is because the size of this cluster is somewhat smaller, and because firms have very strong incentives to be located close to major hospitals, healthcare facilities, and existing bioscience firms in and near Bothell.

Clean Technology. Clean technology is a relatively new cluster that is not as clearly defined by the EDC and other economic development agencies as the other two clusters. It is somewhat concentrated in the Arlington area, but also spread throughout the county. Clean Technology (or green tech, or alternative energy, as it is sometimes referred to) has also been identified as a very important cluster by state and federal economic development agencies. Businesses may include those

Figure 10. Snohomish County Clusters



Source: Snohomish County Economic Development Council, Leland Consulting Group.

participating in the production of solar or wind power, green building measures, energy efficient engines, or numerous other services or products. Clean tech is expected to grow in part because of increasing energy prices around the globe. Despite its lack of concentration and incomplete definition in Snohomish County, clean technology is an important cluster for Lake Stevens to watch and take advantage of because of its potential to grow state- and nation-wide.

Outdoor Sports and Recreational Gear. Although this cluster has not been targeted by the County or other areas, it was repeatedly mentioned during the project team's stakeholder interviews as an area in which Lake Stevens could excel, due to its concentration of outdoor enthusiasts.

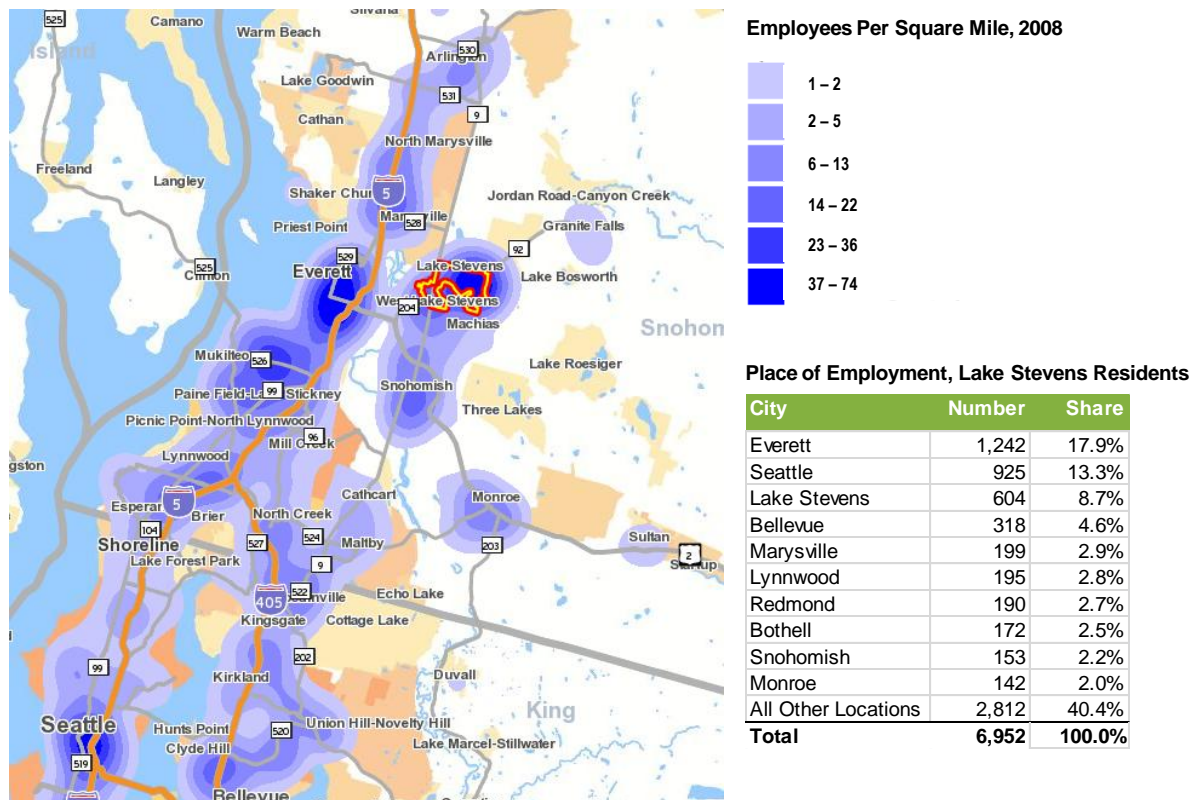
Employment Dynamics and Office Market

The Geography of Employment

The geography of where residents live and work has a significant impact on office, retail, and housing markets, existing and desired transportation infrastructure, and economic development opportunities. Figures 11, 12, and 13 illustrate various aspects of the geography of housing and employment in Snohomish County. All information shown in Figures 11 through 13 is based on 2008 U.S. Census data, gathered prior to the most recent (2009) annexation, during which the City gained approximately 10,000 residents. Thus, while the principles discussed below should remain accurate, the numbers of employees and residents in Lake Stevens have increased significantly. The 2008 Census data is the most recent available. The employment geography figures show that:

- Lake Stevens residents travel widely for work. While Everett is the top destination for Lake Stevens employees, significant numbers of employees also travel further, to Seattle, Bellevue, and other locations. (Figure 11)
- The City is largely a beginning point for work trips, rather than an ending point. (Figure 12)
- Thousands of employees pass through Lake Stevens and/or the Highway 2 trestle on their way to work in Everett, and by extension, other locations to the west and south. In addition to Lake Stevens residents, these commuters comprise a key demographic group with a high propensity to choose Lake Stevens as a place to shop, work, and live. (Figure 14)

Figure 11. Employment Destinations of Lake Stevens Residents



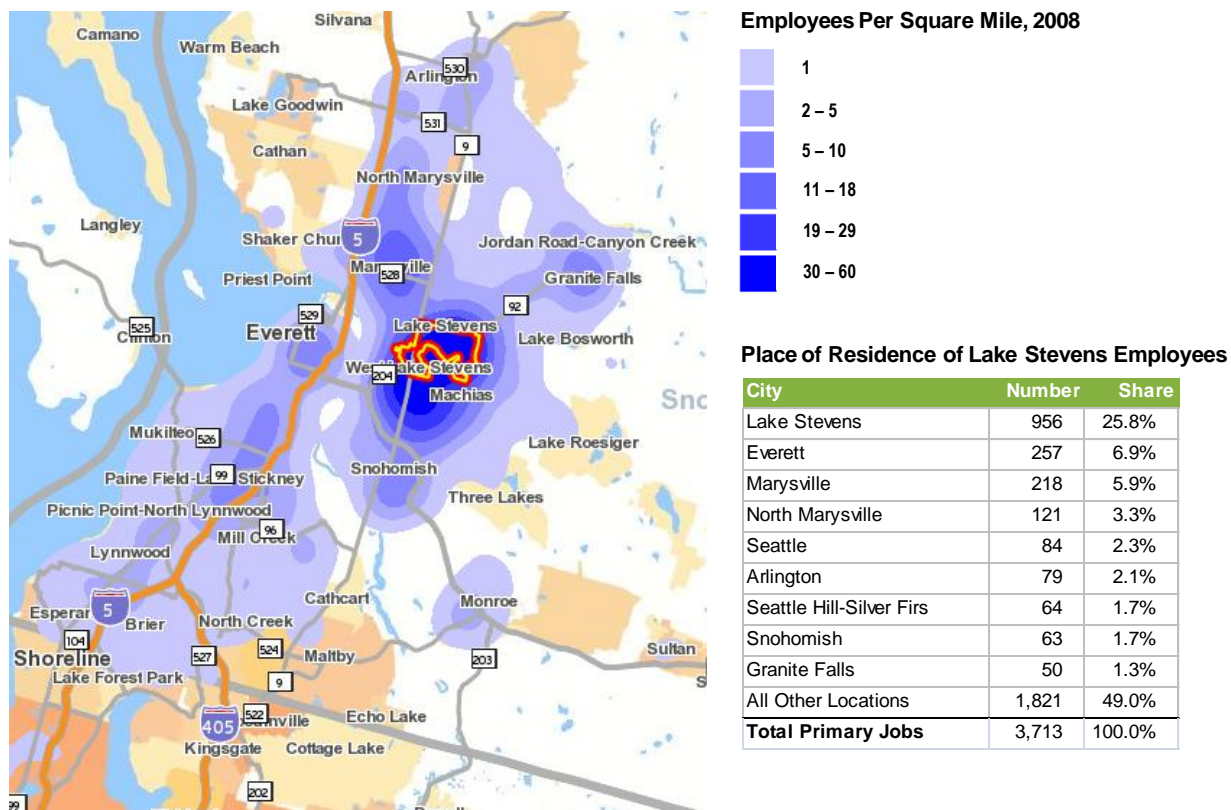
Source: U.S. Census Bureau. Note: Data does not include 2009 Lake Stevens annexation.

Residential Origins of Lake Stevens Employees

While Figure 12 does not offer any major surprises, it confirms that:

- The area from which Lake Stevens *draws* employees is much smaller than the area to which Lake Stevens residents *commute to*. For example, while 925 Lake Stevens residents commute to the City of Seattle, only 84 Seattle residents commuted to Lake Stevens. Again, this confirms that Lake Stevens is currently a residential community, rather than an employment-centered community.
- As of 2008, almost twice as many people commuted *from* Lake Stevens as worked *in* Lake Stevens.

Figure 12. Residential Origins of Lake Stevens Employees



Source: U.S. Census Bureau.

The Westward Commute and Lake Stevens Secondary Retail Market Area

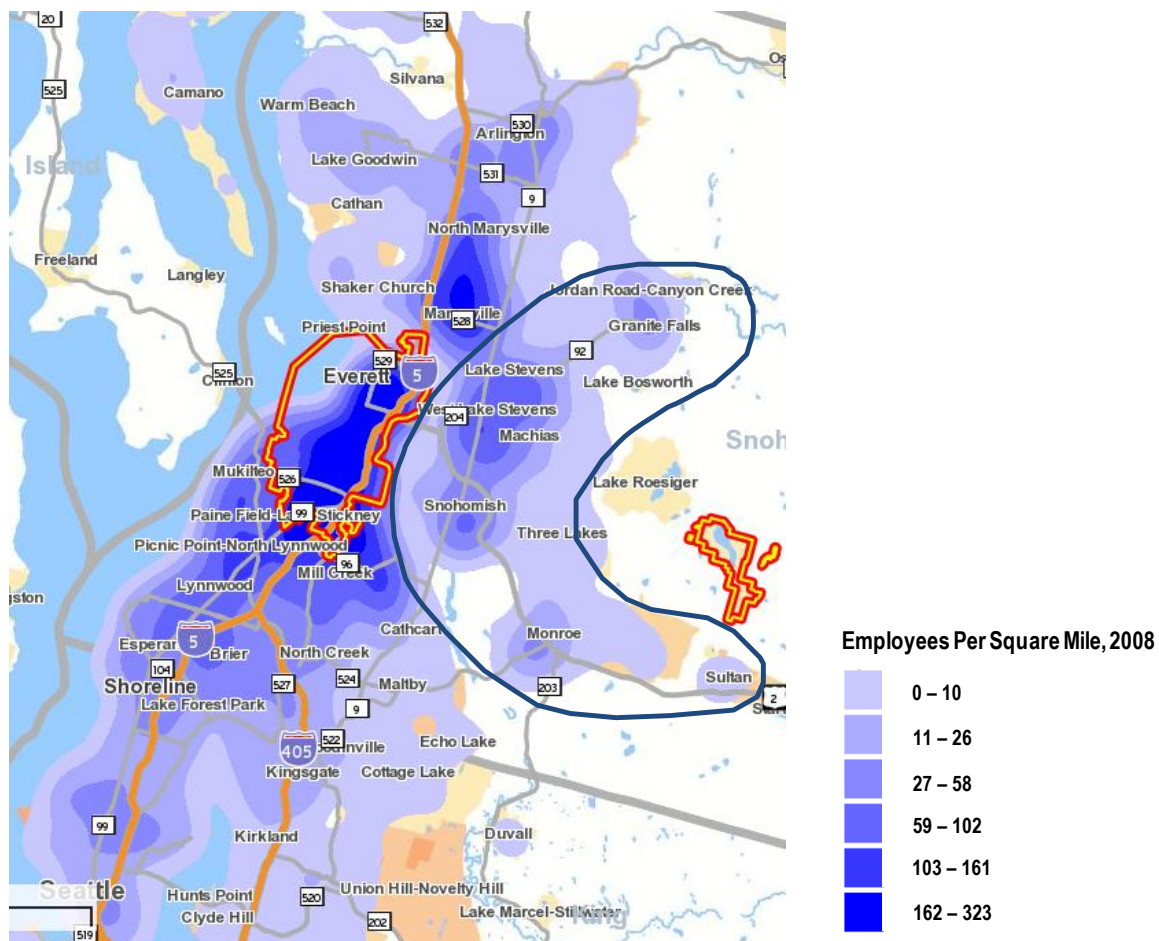
Figure 13 shows the residential origins of employees who work in the City of Everett.

The primary significance of this map is that it shows that thousands of employees routinely pass through Lake Stevens and the Highway 2 trestle on their way to Everett. These commuters are representative of thousands of others like them commuting westward to jobs in other western locales in Snohomish and King Counties.

The blue outline shape shows the Lake Stevens Secondary Retail Market Area, or the “Snohomish County Crescent” as it was referred to by one interviewee. This area is also discussed in the Retail Forecast and Leakage Analysis, another element of this Economic Development Strategy.

In addition to being oriented to and reliant on western parts of the Puget Sound Region for work, analysis shows that residents of this Secondary Market Area need to return to the west to make many of their major retail purchases. Because of the proximity and convenience of Lake Stevens to the market area, there is an opportunity to attract the population to employment and retail opportunities in Lake Stevens, assuming those opportunities are competitive with other offerings to the west. The population of the Snohomish County Crescent is approximately 105,000 in 2010, nearly four times the population of Lake Stevens alone, and thus represents a very significant employment and retail opportunity.

Figure 13. Residential Origins of City of Everett Employees



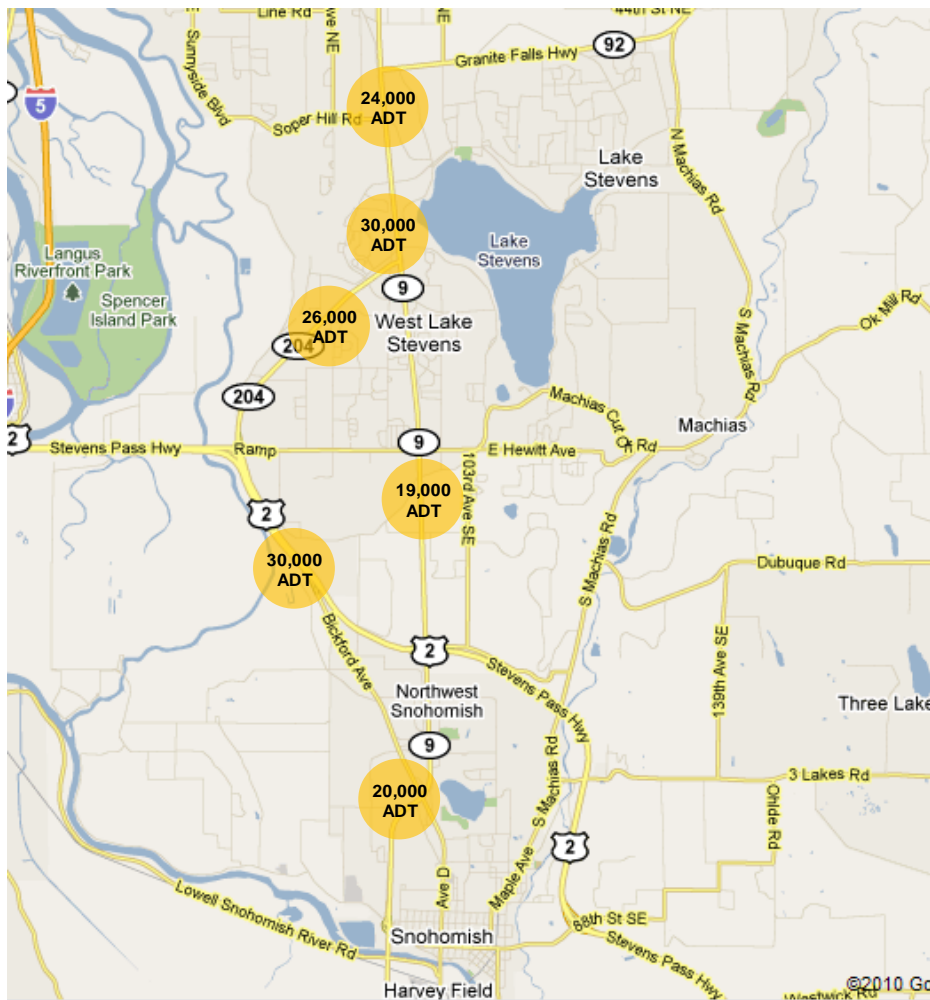
Source: U.S. Census Bureau.

Lake Stevens Traffic Counts

From a real estate and economic development point of view, traffic counts are important to real estate developers, and their retail and office tenants. This is because both retail and office tenants want locations with high visibility, where they can be seen and selected by thousands of potential customers. This is particularly true for major retailers, who believe in the adage that their customers “can’t buy what they can’t see.” Supermarkets and other tenants that locate in “neighborhood” or “community” retail centers look for average daily traffic (ADT) counts of 20,000 or more. Major regional malls and retail centers tend to locate near major highways that see around 60,000 ADT. Other types of transportation and visibility measures, for example, pedestrian and public transit counts are important—but only in areas with very high pedestrian and transit usage, in which these travelers are as or more numerous than vehicle trips.

Figure 14 shows that, with one minor exception, the segments of Highways 2 and 9 within or near Lake Stevens carry the levels traffic sought by major community retail center tenants. Along with population and demographics, ADT should be one of the primary metrics that the City uses to inform retail developers and tenants about the local market potential.

Figure 14. Lake Stevens Area Traffic Counts



Source: WSDOT Annual Traffic Report, 2009.

Office Market Summary

Table 3 shows that, consistent with the national office markets, the regional Puget Sound and "Northend"⁶ markets are suffering. In general, vacancies of over 10 percent are considered one sign of a weak market, and all of the Puget Sound submarkets exhibit office markets with vacancies in excess of 11 percent. High vacancies send the message to developers that adequate existing office space is available on the market, and that new space is not needed. Unfortunately, reliable data for the Lake Stevens area does not exist, as the area has too little office space to attract consistent attention and analysis from Puget Sound brokerage firms.

Absorption, deliveries (recent completed projects), and projects under construction, in the region and Northend, are also anemic. At the time of this survey, only 35,000 square feet of office space was under construction in the entire Northend. Quoted lease rates in the Northend are moderate if not extremely high, again indicating weakness in the market. Lease rates in the mid \$20 per square foot or higher are in the range to be adequate to justify new construction.

Taken together, all these indicators strongly suggest that new office development in the Northend *in the near future* will be very difficult, since employers have delayed or cancelled expansions, and in many cases cut their workforces and office space needs. Planning for new office and employment buildings and parks should focus on the mid- and long-terms. Current analysis indicates that medical office and other healthcare-related uses will be the first type of employment development to regain its momentum.

Table 3. Puget Sound Office Market Summary, Q1 2010

Market Area	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Rentable Area	Total SF	Vacancy %				
Downtown Seattle	1,626	69,941,226	10,212,512	14.60%	211,906	461,609	2,213,264	\$27.44
Eastside	1,328	43,853,232	5,357,866	12.20%	(300,980)	0	257,910	\$27.44
Northend	1,268	19,344,037	2,530,997	13.10%	(12,958)	0	35,000	\$22.19
Southend	841	17,897,098	2,603,171	14.50%	(24,323)	14,500	88,000	\$20.36
Tacoma	1,763	17,165,304	1,988,049	11.60%	25,714	2,100	69,140	\$20.81
Total	6,826	168,200,897	22,692,595	13.50%	(100,641)	478,209	2,663,314	\$25.45

Source: CoStar, Leland Consulting Group.

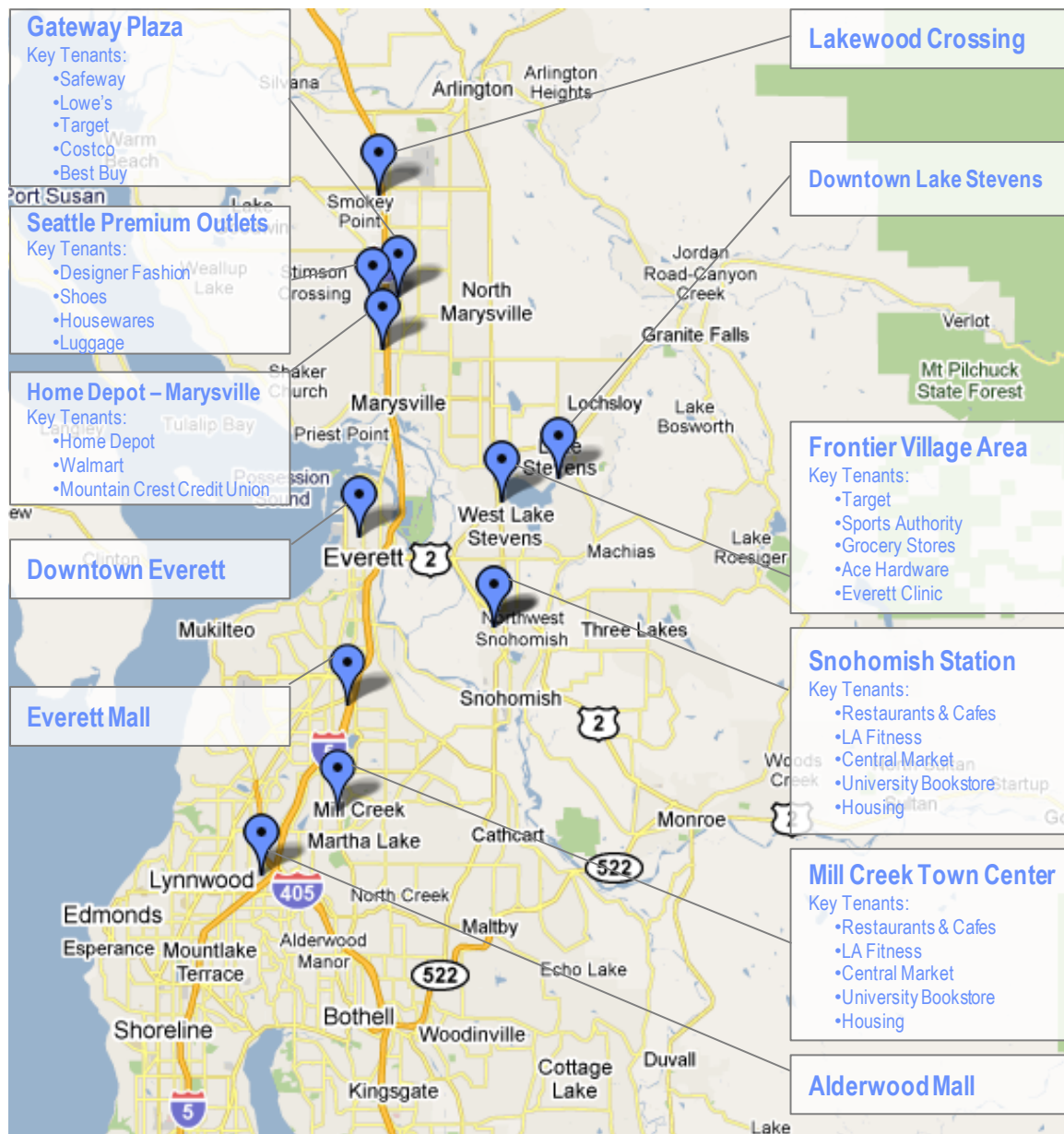
⁶ The Northend market includes the urbanized areas of Snohomish County, including the following submarkets: Bothell/Kenmore, Edmonds/Lynnwood, Everett CBD, Mill Creek/Woodinville, N Snohomish County, Northgate/N Seattle, S Everett/Harbor Point, and S Snohomish County.

Retail Market

Competitive Environment

North Snohomish County residents have a wide variety of retail locations to choose from. Shoppers decide on a location based on a number of factors, including convenience, price, retailers' unique offerings, and overall ambiance of the environment. Cities, retail developers, and retailers must take this competitive environment, shown below, into account when deciding what new projects to build and where to locate. Additional information is contained in the Retail Forecast and Leakage Analysis Memorandum also completed as part of the Economic Development Strategy.

Figure 15. Major Retail Centers near Lake Stevens



Source: City of Lake Stevens, LMN Architects, Leland Consulting Group.

Retail Market

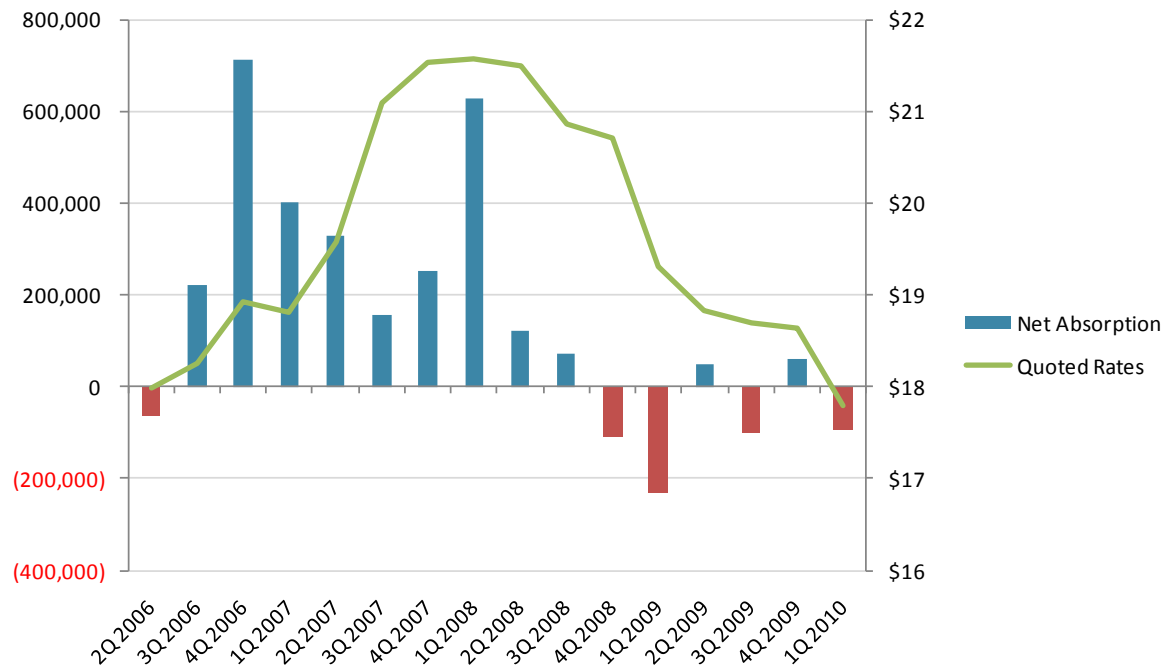
The Northend retail development outlook is more mixed than the office market, but most signs suggest that retail development will be slow in the near term. During this time, Lake Stevens should focus on planning, preparation, and deal-making, not development. The Northend submarket has had negative net absorption in four of the last six quarters through the first quarter of 2010. In other words, retailers have been vacating space rather than filling it. Absorption in 2006 through 2008 was very strong, indicating high levels of development and retailer expansion. Quoted lease rates have also dropped beneath \$18.00. Developers of large retail center seek lease rates in the \$20 - \$30 range from their new tenants. Thus, both absorption and lease rates suggest that the development market is at or near the bottom, and do not portend near-term improvement. These local trends reflect market conditions nationally.

Table 4. Total Retail Market Statistics, First Quarter 2010

Market Area	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Rentable Area	Total SF	Vacancy %				
Downtown Seattle	2,818	30,100,181	1,336,891	4.40%	51,432	3,300	85,599	\$22.25
Eastside	1,450	26,943,825	2,043,129	7.60%	(12,698)	20195	32,732	\$25.21
Northend	2,858	42,787,595	2,568,450	6.00%	(91,790)	31064	110,457	\$17.98
Southend	1596	29,194,462	2,232,065	7.60%	(51,064)	13,000	0	\$16.92
Tacoma	3,805	40,028,447	2,847,036	7.10%	59,290	16,842	73,045	\$16.43
Totals	12,527	169,054,510	11,027,571	6.50%	(44,830)	84,401	301,833	\$19.10

Source: CoStar.

Figure 16. Northend Retail Rates and Net Absorption Since 2006



Source: CoStar.

Retail Character: Mill Creek Town Center

Several retail centers and locations were consistently mentioned by project stakeholders as models for future retail and mixed use development within the City, whether that development takes place at Frontier Village, 20th Street SE, Downtown, or another location. Recommended models included Mill Creek Town Center in the City of Mill Creek, and downtown LaConnor and Edmonds. Mill Creek was cited as a model because of its recent construction; attractive and welcoming design; successful integration of numerous components, including retail, office, housing, public space, transit, creek and other natural areas; and strong and successful retailers, which include numerous restaurants and cafes, the University Bookstore, a supermarket, and fitness center. On a recent visit to the site, very few vacancies were visible. The photos below show some of the popular features of the center.

Figure 17. Mill Creek Town Center

Popular features include its restaurants and urban orientation towards the street (left), and consistent design, branding, and wayfinding (right).



Source: Leland Consulting Group.

Industrial Market

The Northend industrial submarket, which incorporates most of the industrial properties found within Snohomish County except for the portion of Bothell that extends into Snohomish County, had the highest vacancy, over 14 percent, in the first quarter of 2010 compared to the total market vacancy of 8.7 percent. It has higher than average asking rents and is by far the smallest of the Puget Sound region with only a little over 14,000 square feet of building space.

Table 5. Puget Sound Industrial Real Estate Market Statistics

Puget Sound Market Statistics 1st Quarter 2010							
Submarket	Building SF	Total Vacant	Total Vacancy %	Total Availability %	Direct Asking Rate (NNN PSF/Mo)	Last 4 Qtrs Net Absorption	Under Construction
Seattle Close-In	62,386,939	2,250,071	3.60%	5.80%	\$0.55	(777,141)	—
Kent Valley	114,181,902	11,127,095	9.70%	13.80%	\$0.38	(3,984,745)	—
Tacoma/Fife	30,645,448	2,678,150	8.70%	10.90%	\$0.34	1,141,783	370,807
Eastside	24,205,245	3,333,068	13.80%	18.20%	\$0.79	(262,294)	—
Northend	14,437,154	2,066,038	14.30%	19.20%	\$0.60	(71,820)	—
Market Total	245,856,688	21,454,422	8.70%	12.20%	\$0.48	(3,954,217)	370,807

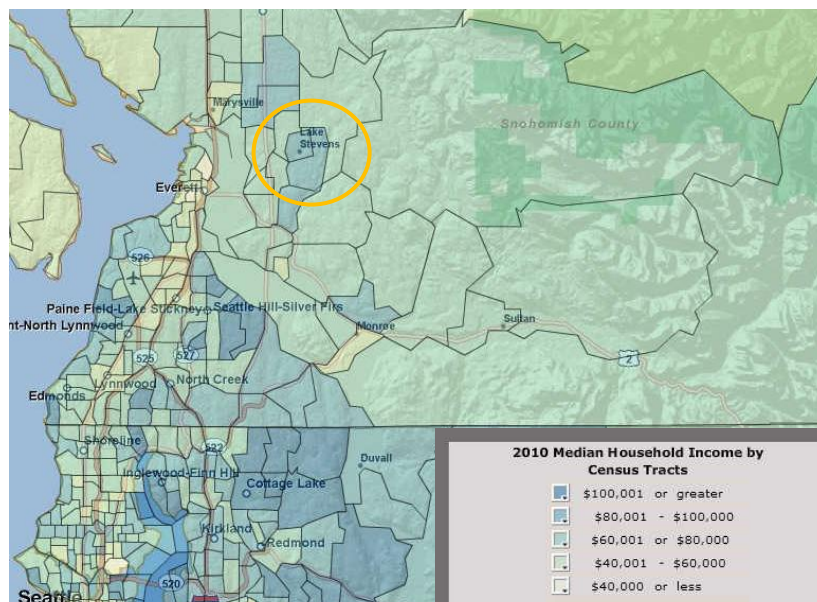
Source: CBRE MarketView Puget Sound Industrial First Quarter 2010.

Appendices

Household Income

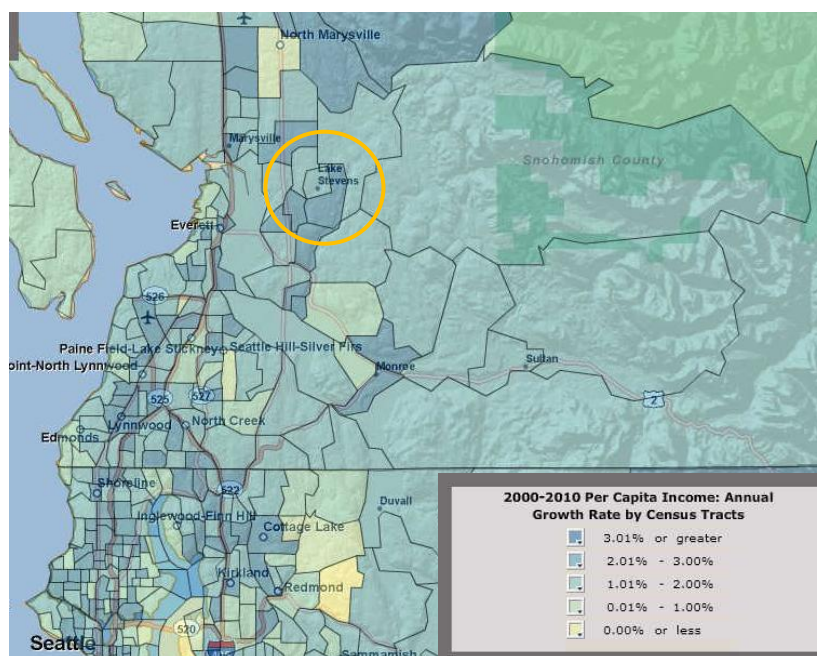
Lake Stevens has a higher median household income than most of Snohomish County, and experienced a faster growth rate over the past decade than most other parts of Snohomish County.

Figure 18. 2010 Median Household Income



Source: ESRI, Leland Consulting Group.

Figure 19. Annual growth rate of per capita income from 2000 to 2010



Source: ESRI, Leland Consulting Group.

Additional Strengths

- **Positive views of annexation and “One Community Around the Lake” goal.** While opinions of annexation differ, on the whole, residents have express approval for the City’s policies and actions. Four annexations have been approved through public petitions or votes since 2006.
- **Successful acquisition and improvement of City Park and boat launch downtown,** site of many events, including the farmer’s market.
- **A unique historic legacy** that includes downtown and roots as a rail road town with timber and mining industry roots. These roots lend the City a unique character.
- **The City’s track record as a business and development partner.** Although opinions on the City’s economic development track record vary, many residents, business people, developers, and other government agencies see Lake Stevens as a capable and reliable partner.
- While it is not a glamorous aspect of development, the **Lake Stevens Sewer District** is seen as very efficient and competent, and one of the most important factors that guides where development happens in the City and beyond.
- **Executive residences.** Lake Stevens is home to business executives who have both the authority and incentive to relocate businesses in or near the City, closer to their homes.

